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June 6, 2000

Via Hand-Delivery

K. David Waddell Executive Secretary Tennessee Regulatory Authority 460 James Robertson Parkway Nashville, Tennessee 37219

Re: Application of Memphis Networx, LLC for a Certificate of Public Convenience and Necessity to Provide Intrastate Telecommunication Services and Joint Petition of Memphis Light Gas & Water Division, a Division of the City of Memphis, Tennessee ("MLGW") and A&L Networks-Tennessee, LLC ("A&L") for Approval of Agreement Between MLGW and A&L regarding Joint Ownership of Memphis Networx, LLC; Docket No.99-00909 – Rebuttal Testimony and Motion to Strike

Dear Mr. Waddell:

Enclosed you will find the original and thirteen (13) copies of the Pre-filed Rebuttal Testimony of Larry Thompson, Wade Stinson, John McCullough and Ward Huddleston on behalf of MLGW and Memphis Networx. In addition, you will find the Motion to Strike of the Applicant and Joint Petitioners. Please note that subject to and without waiver of the Motion to Strike and the objections to certain testimony of IBEW, the Applicant and Joint Petitioners have filed testimony in response to testimony that they deem objectionable.

Sincerely,

D. Billye Sanders, Esq.

Attorney for Memphis Light Gas & Water Division and Memphis Networx, LLC

and

Jóhn Knox Walkup, Esq. Wyatt, Tarrant and Combs

Attorney for A&L Networks-Tennessee, LLC

John Knox Walkep

and Memphis Networx, LLC

DBS:jpf Enclosures

cc:

Parties of Record

J. Maxwell Williams, Esq. Ward Huddleston, Esq.

544307.2

POSTED

CERTIFICATE OF SERVICE

I, D. Billye Sanders, hereby certify that on this $\underline{\ell^{\prime\prime}}$ day of June, 2000, a true and correct copy of the foregoing was delivered by facsimile or U.S. Mail postage pre-paid to the Counsel of Record listed below.

D. Billve Sanders

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BellSouth Telecommunications, Inc.
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Vance Broemel, Esq.
Office of the Attorney General
Consumer Advocate Division
Cordell Hull Building
425 5th Avenue North
Nashville, TN 37243-0500

$\frac{1}{2}$		BEFORE THE TENNESSEE REGULATORY AUTHORITY NASHVILLE, TENNESSEE				
4	INR	RE: APPLICATION OF MEMPHIS)				
5		TWORX, LLC FOR A CERTIFICATE OF)				
6		BLIC CONVENIENCE AND				
7		CESSITY TO PROVIDE INTRASTATE)				
8			OCKET NO. 99-00909			
9	AND	D JOINT PETITION OF MEMPHIS)				
10	LIG	HT GAS AND WATER DIVISION,				
11	A DI	IVISION OF THE CITY OF MEMPHIS,)				
12	TEN	NNESSEE ("MLGW") AND A&L)				
13	NET	ΓWORXS-TENNESSEE, LLC ("A&L"))				
14		R APPROVAL OF AGREEMENT)				
15		TWEEN MLGW AND A&L REGARDING)				
16		NT OWNERSHIP OF MEMPHIS)				
17	NET	TWORX, LLC)				
18						
19						
20		PRE-FILED REBUTTAL TEST				
$\frac{21}{22}$		WADE STINSON ON BEHALF	OF MLGW			
22 23	0	DIEACE CHATE VOID MAME DIACE	OE EMEDI OXMERNE MIMI D			
23 24	Q.	PLEASE STATE YOUR NAME, PLACE (AND BUSINESS ADDRESS.	OF EMPLOYMENT, TITLE			
25		AND DUSINESS ADDRESS.				
26	Α.	My name is Wade Stinson. I am the Vice I	President of Construction and			
27		Maintenance at Memphis Light Gas and Wat				
28		City of Memphis, Tennessee. My business add	dress is Mamphis Light Gas &			
29		Water Division, 220 South Main Street, Mempl	nis Tennessee 38103			
30			, 10111100000 00100.			
31	Q.	HAVE YOU PREVIOUSLY TESTIFIED IN	THIS DOCKET?			
32	A.	Yes.				
33	Q.	WHAT IS THE PURPOSE OF YOUR TEST	IMONY?			
34	A.	The purpose of this testimony is to respond to	o certain statements of Archie			
35		Hickerson and Brent Hall in their pre-filed test				
36		pro mod obt				
37	Q.	HAVE YOU READ THE PRE-FILED TE	STIMONY OF ARCHIE R.			
38	•	HICKERSON, DIRECTOR OF THE	CONSUMER ADVOCATE			
39		DIVISION STAFF?				
40						

1 A. Yes.

Q. MR. HICKERSON TESTIFIES THAT MLGW HAS NOT AGREED TO REFUSE TO BID LOWER FOR PROJECTS THAT IT DOES FOR MEMPHIS NETWORX THAN IT WOULD BID ON A SIMILAR PROJECT FOR AN UNRELATED THIRD PARTY. WILL MLGW AGREE TO DO SO?

9 A. Yes.

11 Q. HAVE YOU READ THE PRE-FILED TESTIMONY OF BRENT E. 12 HALL ON BEHALF OF IBEW LOCAL 1288?

14 A. Yes.

16 Q. MR. HALL TESTIFIED THAT MEETINGS WERE NOT HELD
17 BETWEEN REPRESENTATIVES OF MLGW AND THE UNION PRIOR
18 TO THE SETTING UP OF MEMPHIS NETWORX. IS THIS
19 ACCURATE?

A. No. I personally attended two such meetings that occurred between the union and MLGW representatives in January and September, 1999. These meetings were the regularly scheduled meetings between the union Executive Board and MLGW. The telecom venture was on the agenda for each of these meetings. To the best of my recollection, Mr. Hall was present at the January and September meetings. Copies of these agendas are attached to the Pre-filed Testimony of Larry Thompson.

At the January meeting, we talked about the joint venture as an option, and also noted the status of the RFP that had been issued seeking a telecommunications strategic partner. In September, we talked about the joint venture, the percent of ownership that both entities would have, and also the draft terms of the Operating Agreement. The union asked questions about why a partner was needed; we responded that entering a joint venture would allow us to mitigate the financial risk. I was the spokesman for the telecommunications project at these meetings.

- 38 Q. DOES THAT CONCLUDE YOUR TESTIMONY?
- 40 A. Yes.

VERIFICATION

I, Wade Stinson, declare under penalty of perjury that I am authorized by Memphis Light Gas & Water Division to testify on its behalf, that I have caused the foregoing written testimony to be prepared on my behalf, that I have read the foregoing testimony and that the statements contained therein are true and correct to the best of my knowledge, information and belief.

Wade Stinson, Vice President of Construction and Maintenance of Memphis Light Gas Water Division

STATE OF TENNESSEE)
)
COUNTY OF SHELBY)

Sworn to and subscribed before me this 5th day of

,2000

Notary Public

My Commission Expires:

1 BEFORE THE TENNESSEE REGULATORY AUTHORITY 2 NASHVILLE, TENNESSEE 3 IN RE: APPLICATION OF MEMPHIS 4 NETWORX, LLC FOR A CERTIFICATE OF) 5 PUBLIC CONVENIENCE AND 6 NECESSITY TO PROVIDE INTRASTATE) TELECOMMUNICATIONS SERVICES 7 **DOCKET NO. 99-00909** 8 AND JOINT PETITION OF MEMPHIS 9 LIGHT GAS AND WATER DIVISION. 10 A DIVISION OF THE CITY OF MEMPHIS. TENNESSEE ("MLGW") AND A&L 11 12 NETWORKS-TENNESSEE, LLC ("A&L") FOR APPROVAL OF AGREEMENT 13 14 BETWEEN MLGW AND A&L REGARDING) 15 JOINT OWNERSHIP OF MEMPHIS 16 NETWORX, LLC 17 18 19 PRE-FILED REBUTTAL TESTIMONY OF JOHN McCULLOUGH 20 ON BEHALF OF MLGW 21 22 Q. PLEASE STATE YOUR NAME, PLACE OF EMPLOYMENT, TITLE 23 AND BUSINESS ADDRESS. 24 My name is John McCullough. I am the Senior Vice President, Chief 25 Α. 26 Financial Officer and Secretary-Treasurer of Memphis Light, Gas and Water 27 Division, a Division of the City of Memphis, Tennessee. My business address 28 is Memphis Light, Gas and Water Division, 220 South Main Street, Memphis, 29 Tennessee 38103. 30 31 HAVE YOU TESTIFIED PREVIOUSLY IN THIS DOCKET? Q. 32 Yes. 33 A. 34 35 WHAT IS THE PURPOSE OF THIS TESTIMONY? Q. 36 37 A. The purpose of this testimony is to respond to the pre-filed testimony of Archie Hickerson filed on behalf of the Consumer Advocate Division. 38 39 HAVE YOU READ THE PRE-FILED TESTIMONY OF ARCHIE R. 40 Q. 41 HICKERSON, THE DIRECTOR OF THE CONSUMER ADVOCATE **DIVISION STAFF?** 42

43

1 A. Yes.

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- Q. ON PAGE 14 OF HIS TESTIMONY, MR. HICKERSON PROPOSES
 THAT EACH PAGE OF MLGW'S COST ALLOCATION MANUAL
 (CAM) CONTAIN AN EFFECTIVE DATE AND THAT ALL CHANGES
 TO THE CAM BE DOCUMENTED. IS MLGW WILLING TO DO THIS?
- 8 A. Yes, MLGW will indicate the effective date on each page of the manual.
 9 MLGW also agrees to document all changes to the manual. We believe this is
 10 a helpful suggestion.
- 12 Q. ON PAGES 14 15, MR. HICKERSON SUGGESTS THAT MLGW'S
 13 RECORDS BE MAINTAINED SO AS TO ALLOW THE ALLOCATIONS
 14 TO BE AUDITED AND REVIEWED BY THE AUTHORITY. IS MLGW
 15 WILLING TO DO THIS?
- Yes. If I did not make this clear in my prior testimony, I will now. MLGW agrees to maintain its records so that the Authority and any external auditors may have access to its records. MLGW believes that maintenance of its records in this manner does fully comply with the NARUC Guidelines' audit requirements quoted by Mr. Hickerson in his testimony.
- ON PAGE 17 OF HIS TESTIMONY, MR. HICKERSON REMARKS 21 Q. THAT THE SPECIFIC DUTIES AND RESPONSIBILITIES OF THE 22 23 MLGW EMPLOYEES INVOLVED IN MEMPHIS NETWORX HAVE 24 NOT BEEN IDENTIFIED. PLEASE RESPOND TO THIS 25 TESTIMONY.
- A. Section 7 of the CAM identifies the employees, their positions a description of their duties relating to the telecommunications division and the good faith estimate of their time spent on the telecommunications project. None of these employees are engaged in the activities of Memphis Networx and are anticipated to do so. This was also noted in the Supplemental Pre-filed Rebuttal Testimony of John McCullough.
- 33 ON PAGE 19 OF HIS TESTIMONY, MR. HICKERSON ALSO STATES Q. 34 THAT HE IS UNAWARE OF THE TYPE OR LEVEL OF NON-TARIFFED TRANSACTIONS THAT ARE LIKELY TO OCCUR 35 BETWEEN MLGW AND MEMPHIS NETWORX. WOULD YOU GIVE 36 EXAMPLES OF THE TYPE OF NON-TARIFFED TRANSACTIONS 37 THAT ARE LIKELY TO OCCUR BETWEEN MLGW AND MEMPHIS 38 39 **NETWORX?** 40
- 41 A. Yes. As discussed on p. 6 of my the Supplemental Pre-filed Rebuttal Testimony, very few non-tariffed transactions are likely to occur between

MLGW and Memphis Networx. No such services or products are likely to be transferred from Memphis Networx to MLGW. From MLGW to Memphis Networx, the only non-tariffed transactions that may occur relate to Memphis Networx's rental of space on or in MLGW's overhead and underground distribution system. Construction contracts could occur if MLGW were the successful bidders on a construction contract. Memphis Networx could contract for services that are provided under specified rates pursuant to job orders. Job orders are done pursuant to estimates of actual costs plus overheads. If the actual costs exceed the estimate, the customer pays the actual costs. Further examples of work performed under a job order are provided in Section 5 of the Cost Allocation Manual.

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Q. ON P. 19 OF HIS TESTIMONY, MR. HICKERSON RECOMMENDED THAT MLGW SUBMIT ANNUAL REPORTS TO THE TRA. WILL MLGW AGREE TO SUBMIT SUCH REPORTS?

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Yes. MLGW is willing to file reports annually which identify the level of tariffed and non-tariffed transaction between MLGW and Memphis Networx.

19

ON P. 20 OF HIS TESTIMONY, MR. HICKERSON DISCUSSES THE 20 Q. NARUC GUIDELINES CONCERNING THE TRANSFER OF CAPITAL 21 ASSETS FROM MEMPHIS NETWORX TO MLGW. DOES MLGW 22 **MEMPHIS** INTEND TRANSFER CAPITAL ASSETS TO \mathbf{TO} 23 **NETWORX?** 24

25

A. MLGW will transfer only cash, as needed for the operations of Networx.

MLGW does not intend to transfer capital assets to Networx. However, if

MLGW did transfer capital other than cash, it would transfer such assets in

accordance with the NARUC guidelines regarding transfer of capital assets.

30 31

Q. HAVE YOU READ THE PRE-FILED TESTIMONY OF BRENT HALL ON BEHALF OF IBEW, LOCAL 1288?

32 33

34 A. Yes.

35

36 Q. ON PAGE 4 OF HIS TESTIMONY, MR. HALL STATES THAT IBEW
37 HAS NOT YET RECEIVED A COPY OF THE MEMPHIS NETWORX
38 TRA APPLICATION FROM MLGW. PLEASE COMMENT

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A. During the course of my deposition on April 27, 2000, it was clear to me that counsel for IBEW did in fact have copies of both the TRA Application and the Operating Agreement, as demonstrated by the following excerpt from my deposition: (Transcript p. 53) (emphasis added)

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 Q. (Bloomfield) I want to refer you to – first of all let me make sure I have – what I have is the operating agreement of Memphis Networx LLC, that was, I believe, attached to the application. I want to make sure – we have the same document. And eleven point six, the call option by A&L, on page 28.

A. Okay.

- Q. Can you explain to me I realize that the document speaks for itself, and I'm not particularly smart, and I would like to if you could explain to me what that's supposed to provide.
- A. I'm not familiar with this particular section. I wasn't part of the of this part of the negotiation. I would have to refer you to others other witnesses to address this.

In addition, Walter Dutton, the Business Manager of IBEW was present at both of these depositions.

Moreover, the Application and Operating Agreement are public documents available for review and copying at the TRA. They have been on file at the TRA since November 24, 1999. MLGW's counsel has served copies of all documents and pleadings it filed since IBEW was made a party on IBEW's counsel.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

VERIFICATION

I, John McCullough, declare under penalty of perjury that I am authorized by Memphis Light, Gas & Water Division to testify on its behalf, that I have caused the foregoing written testimony to be prepared on my behalf, that I have read the foregoing testimony and that the statements contained therein are true and correct to the best of my knowledge, information and belief.

John McCullough
Senior Vice President, Chief Financial
Officer and Secretary-Treasurer

Memphis Light, Gas & Water Division

STATE OF TENNESSEE)
)
COUNTY OF SHELBY)

Sworn to and subscribed before me this 5th day of

blic

My Commission Expires:

BEFORE THE TENNESSEE REGULATORY AUTHORITY NASHVILLE, TENNESSEE

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PRE-FILED REBUTTAL TESTIMONY OF WARD HUDDLESTON, JR. ON BEHALF OF MEMPHIS NETWORX, LLC

- Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
- A. My name is Ward Huddleston, Jr. My business address is 7555 Appling Center Drive, Memphis, Tennessee 38133-5069.
- Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS DOCKET?
- A. Yes.
- Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?
- A. The purpose of my testimony is to respond to and/or rebut certain statements of Archie Hickerson and Brent Hall contained in their Pre-filed Testimony.
- Q. HAVE YOU READ THE PRE-FILED TESTIMONY OF ARCHIE R. HICKERSON, DIRECTOR OF THE CONSUMER ADVOCATE DIVISION STAFF?
- A. Yes.
- Q. ON PAGE 15 OF HIS TESTIMONY, MR. HICKERSON SUGGESTED THAT THE RECORDS OF MEMPHIS NETWORX BE MAINTAINED

SO AS TO ALLOW THE ALLOCATIONS TO BE AUDITED AND REVIEWED BY THE AUTHORITY. IS MEMPHIS NETWORX WILLING TO ACCEPT THIS SUGGESTION?

- A. Yes. Memphis Networx will agree to maintain such records for review by the Authority and Memphis Networx's external auditors. Memphis Networx believes that such maintenance of records fully complies with the NARUC Guidelines' audit requirements.
- Q. MR. HICKERSON ALSO SUGGESTED THAT MEMPHIS NETWORX'S RECORDS BE TREATED AS PUBLIC RECORDS. DO YOU AGREE WITH THAT?
- A. No. This issue, however, is not an issue pending before the TRA in this docket.
 - Memphis Networx, as an Applicant, will provide all documents as requested by the TRA and its staff. The documents which Memphis Networx deems proprietary have and will be provided under seal pursuant to the Protective Order issued in this docket in the same manner that other competitive carriers provide documents to the TRA. Such access to the documents of Memphis Networx should alleviate any concerns that the TRA or its staff may have with access to the Applicant's documents.
- Q. ON PAGE 19 OF MR. HICKERSON'S TESTIMONY HE STATES THAT HE IS NOT FAMILIAR WITH THE LEVEL OF NON-TARIFFED TRANSACTIONS THAT ARE LIKELY TO OCCUR BETWEEN MLGW AND MEMPHIS NETWORX. PLEASE COMMENT ON THIS.
- A. Very few non-tariffed transactions are likely to be occur between MLGW and Memphis Networx. These transactions primarily center around Memphis Networx's rental of space on or in MLGW's overhead and underground distribution system, i.e. pole attachments and underground installations. These transactions were described in the Pre-filed Supplemental Testimony of John McCullough. No non-tariffed services, assets or products are likely to be transferred from Memphis Networx to MLGW. I believe that John McCullough, who is also filing Rebuttal Testimony on behalf of MLGW, will affirm MLGW's agreement to provide annual reports to the TRA that identify the level of tariffed and non-tariffed transactions.
- Q. HAVE YOU READ THE PRE-FILED TESTIMONY OF BRENT E. HALL, FILED ON BEHALF OF THE IBEW LOCAL 1288?

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A. Yes.

- Q. ON PAGES 6 -7 OF HIS TESTIMONY, MR. HALL DISCUSSES HIS OPINION CONCERNING THE IMPACTS OF THE JOINT VENTURE ON ARTICLE 17 OF THE MEMORANDUM OF UNDERSTANDING ("MOU") BETWEEN MLGW AND THE UNION. PLEASE COMMENT ON THIS TESTIMONY.
- A. Any concerns relating to the impact of the joint venture on the Memorandum of Understanding, the IBEW, and its members were found to be outside the scope of this proceeding according to the Pre-Hearing Officer's Order of April 25, 2000. Memphis Networx is not a party to the MOU and is not subject to its terms.

Any concerns raised by Mr. Hall concerning future bids, and the inability of MLGW to perform such work, are purely speculative. My understanding had been that IBEW was interested in bidding on work for Memphis Networx, which appears to contradict the testimony of Mr. Hall. In fact, MLGW did submit a bid in May, 2000 to Memphis Networx for construction projects in phase one of ring one, an aerial construction route approximately 70,000 feet in length. Such bid was not the lowest bid, and therefore was not accepted by Memphis Networx. The competitive bidding process employed by Memphis Networx will also allay any concerns that MLGW is somehow receiving preferential treatment from Memphis Networx. Memphis Networx will treat MLGW as any other bidder on a project. Any concerns that Mr. Hall may have with the internal staffing of MLGW should be addressed internally through the grievance procedure, not aired in this forum.

- Q. ON PAGE 8 OF MR. HALL'S TESTIMONY HE NOTES THAT MLGW IS ENTERING A JOINT VENTURE WITH AN OUT-OF-STATE, NON-UNION COMPANY THAT HAS LITTLE EXPERIENCE IN THE TELECOMMUNICATIONS BUSINESS. PLEASE COMMENT ON THIS STATEMENT.
- A. Again, this concern is one of the issues that Mr. Collier found to be outside the scope of this proceeding in his April 25, 2000 Pre-Hearing Officer's Order. In that Order, Mr. Collier stated that "questions relating to why MLG&W is going into business with an out-of-state company that is non-union and pays low wages to its employees, and the impact of such on the Memorandum of Understanding, the IBEW, and its members" was an issue outside the scope of the hearing.

The TRA has two primary issues to decide in this docket: (1) does the Applicant meet the statutory criteria concerning financial, managerial and

technical qualifications, and (2) should the Operating Agreement be approved. This statement appears to be an attempt to attack the expertise of one of the Applicant's owners. The qualifications of the Applicant Memphis Networx is at issue in this docket; the owner's expertise is not.

As a new start-up company, similar to other competing local exchange carriers ("CLECs") which the TRA sees on a daily basis, Memphis Networx has sought out expertise through the hiring of personnel and the retaining of consultants. Bringing in new individuals from other companies in no way lessens the qualifications of Memphis Networx. If such were the case, then only incumbent companies would be able to receive certificates of convenience and necessity from the TRA, a policy that would jeopardize competition throughout the state. Mr. Hall has raised no substantive issues concerning our experience and Memphis Networx stands on its earlier filings which we believe show we are highly qualified to provide telecommunications services in Tennessee.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

JUN 05 2000 5:30 AM FR WALLER LANSDEN

61**52446804** TO 1988010445#91762 P.02/02

VERIFICATION

I. Ward Huddleston, Jr. declare under penalty of perjury that I am authorized by Memphis Networx, LLC to testify on its behalf, that I have caused the foregoing written testimony to be prepared on my behalf, that I have read the foregoing testimony and that the statements contained therein are true and correct to the best of my knowledge, information and belief.

Chief Manager

Memphis Network, LLC

Sworn to and subscribed before me this Itt day of

Notary Public
My Commission Expires: 1/31/2004

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BEFORE THE TENNESSEE REGULATORY AUTHORITY NASHVILLE, TENNESSEE

IN RE: APPLICATION OF MEMPHIS)	
NETWORX, LLC FOR A CERTIFICATE OF)	
PUBLIC CONVENIENCE AND)	
NECESSITY TO PROVIDE INTRASTATE)	
TELECOMMUNICATIONS SERVICES)	DOCKET NO. 99-00909
AND JOINT PETITION OF MEMPHIS)	
LIGHT GAS AND WATER DIVISION,)	
A DIVISION OF THE CITY OF MEMPHIS,)	
TENNESSEE ("MLGW") AND A&L)	
NETWORXS-TENNESSEE, LLC ("A&L"))	
FOR APPROVAL OF AGREEMENT)	
BETWEEN MLGW AND A&L REGARDING	})	
JOINT OWNERSHIP OF MEMPHIS)	
NETWORX, LLC)	

OBJECTION TO CERTAIN PRE-FILED TESTIMONY OF BRENT E. HALL ON BEHALF OF IBEW LOCAL 1288 AND MOTION TO STRIKE

Come now Applicant and Joint Petitioners to object to certain Pre-filed Testimony of Brent E. Hall on behalf of IBEW Local 1288 ("IBEW") and to move to strike portions of the Pre-filed Testimony of Brent E. Hall. In support of said motion Applicant and Joint Petitioners state the following:

- 1. In the Pre-Hearing Officer's Order, dated April 25, 2000, granting IBEW intervention in this docket, the Pre-Hearing Officer found that the following areas are outside the scope of the issues in this proceeding:
 - (a) "Questions relating to the intentions of MLGW with respect to the creation of similar joint ventures in the future which will take over its gas, water and/or electric operations."; and
 - (b) "Questions relating to why MLGW is going into business with an out-of-state company that is non-union and pays low wages to its employees, and the impact of such on the Memorandum of Understanding, the IBEW and its members."

In the Pre-Hearing Order dated May 22, 2000 expanding IBEW's participation in this docket, the Pre-Hearing Officer reiterated that the scope of

cross examination shall be as set forth in the Pre-Hearing Officer's Order of April 27, 2000.1

- 2. The direct testimony of IBEW contains questions that relate to the specific areas that the Pre-Hearing Officer determined to be outside the scope of issues in this proceeding. Further, some of the concerns raised by IBEW are outside of the jurisdiction of the TRA to address.
- 3. Applicant and Joint Petitioners object to the testimony on page 5 through page 7 of Brent Hall's Pre-filed Testimony which relates to the alleged violation of Article 17 of the Memorandum of Understanding between MLGW and IBEW and the speculation regarding the jobs that would have been created if MLGW had chosen to enter the telecommunication business by itself. The Applicant and Joint Petitioners object on the grounds that this testimony is outside the scope of the issues in the proceeding.

As stated in the testimony of Larry Thompson, MLGW does not believe the Memorandum of Understanding has been violated, as any jobs created as a result of the telecom venture will be jobs created by Memphis Networx, which is not a party to the Memorandum of Understanding. Any jobs that may have been created had MLGW chosen to provide telecom services directly are purely speculative.

While MLGW is sympathetic to the concerns of its workers regarding the impact of any business decision it may make and seeks to regularly communicate with IBEW regarding its strategic plans, the IBEW does not have a right to substitute its judgment for that of senior management charged with making business decisions for MLGW.

Further, the form of business entity chosen for the telecommunication's venture is authorized by statute (see T.C.A. § 7-52-103(d)).

4. Applicant and Joint Petitioners object to the question on page 7 with respect to concerns about the precedent set by the telecommunications venture on the ground it relates to the intentions of MLGW with respect to the creation of similar ventures in the future which would take over other utility operations. The Applicant and Joint Petitioners contend this is outside the scope of the issues in this proceeding as set forth in the Pre-Hearing Officer's order dated April 25, 2000 and that the testimony is not probative of any issue in this proceeding. Therefore, Applicant and Joint Petitioners move to strike the first concern under the last question on page 7 of Mr. Hall's testimony.

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¹ Note that the referenced Order is dated April 25, 2000, but posted April 27, 2000. Thus, the Pre-Hearing Officer referred to the Order, dated April 25, 2000, as the April 27, 2000 Order.

5. As stated above, MLGW has attempted to be sympathetic to the concerns of its employees, however, no business can please every employee or constituency with every business decision. The matters raised by IBEW which are subject to this motion are properly addressed in other forums.

WHEREFORE, Applicant and Joint Petitioners request that the Tennessee Regulatory Authority grant this motion to strike the above described portions of the Pre-filed Testimony of Brent E. Hall.

Respectfully submitted,

D. Billye Sanders

Attorney for

MLGW and Memphis Networx, LLC

J. Knox Walkup

Attorney for

A&L Networks-Tennessee, LLC

and

Memphis Networx, LLC

BEFORE THE TENNESSEE REGULATORY AUTHORITY NASHVILLE, TENNESSEE

IN RE: APPLICATION OF MEMPHIS NETWORX, LLC FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO PROVIDE INTRASTATE TELECOMMUNICATIONS SERVICES AND JOINT PETITION OF MEMPHIS LIGHT GAS AND WATER DIVISION, A DIVISION OF THE CITY OF MEMPHIS, TENNESSEE ("MLGW") AND A&L NETWORKS-TENNESSEE, LLC ("A&L") FOR APPROVAL OF AGREEMENT BETWEEN MLGW AND A&L REGARDING JOINT OWNERSHIP OF MEMPHIS NETWORX, LLC)))))	DOCKET NO. 99-00909
MET WORK, DEC	•	

PRE-FILED REBUTTAL TESTIMONY OF WILLIAM LARRY THOMPSON ON BEHALF OF MLGW

- Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
- A. My name is William Larry Thompson. My business address is 220 South Main Street, Memphis, Tennessee 38103.
- Q. WHAT IS YOUR CURRENT POSITION?
- A. I am the Senior Vice President and Chief Operating Officer of Memphis, Light Gas & Water Division.
- Q. WHAT ARE YOUR JOB RESPONSIBILITIES AND HOW LONG HAVE YOU BEEN EMPLOYED BY MLGW?
- A. I supervise the engineering, operations and construction and maintenance activities of MLGW. I have been employed by MLGW for over thirty years, and have spent most of this time working with the construction and maintenance department. I have also worked with the finance department and the human resource department.
- Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS DOCKET?
- A. No. However, I have been deposed by counsel for Time Warner and IBEW.

- Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?
- A. The purpose of my testimony is to respond to and/or rebut some of the testimony of Brent Hall and Archie Hickerson.
- Q. HAVE YOU READ THE PRE-FILED TESTIMONY OF BRENT E. HALL ON BEHALF OF IBEW LOCAL 1288?
- A. Yes.
- Q. ON PAGE 4 OF HIS TESTIMONY, MR. HALL STATES THAT IBEW HAS NOT YET RECEIVED A COPY OF THE MEMPHIS NETWORX TRA APPLICATION FROM MLGW. PLEASE COMMENT.
- A. It is clear to me that IBEW's attorney has received copies of Memphis Networx's TRA Application and the Operating Agreement. During my deposition, counsel for IBEW questioned me concerning a specific provision of the Operating Agreement, which led me to believe that they had received copies of such documents. The following is an excerpt from my deposition which was taken on April 27, 2000. (Transcript, p. 71)
 - Q. (Bloomfield): Let me ask you this, are you familiar with and I apologize if I get my nomenclative (sic) mixed up as far as operating agreement or plan or whatever, but the the provision, I believe it's section eleven point six call option by A&L of the operating agreement?
 - A. I need to read it again.
 - Q. And again, I apologize for mixing up the business plan with the operating agreement.
 - A. Operating agreement and Memphis Networx.
 - Q. Section eleven point six, call option.
 - A. Uh huh.
 - Q. Have you seen this?
 - A. Yes.

Mr. Bloomfield went on to ask specific questions about the provisions of the Operating Agreement.

I was also present during the deposition of John McCullough, where counsel for IBEW asked Mr. McCullough specific questions concerning the Application and the Operating Agreement. The following excerpt from the transcript of John McCullough's April 27, 2000 deposition makes it clear that Mr. Bloomfield has the Operating Agreement and the Application. (Transcript, p. 53) (emphasis added)

Q. (Bloomfield) I want to refer you to – first of all let me make sure I have – what I have is the operating agreement of Memphis Networx LLC, that was, I believe, attached to the application. I want to make sure – we have the same document. And eleven point six, the call option by A&L, on page 28.

A. Okay.

- Q. Can you explain to me I realize that the document speaks for itself, and I'm not particularly smart, and I would like to if you could explain to me what that's supposed to provide.
- A. I'm not familiar with this particular section. I wasn't part of the of this part of the negotiation. I would have to refer you to others other witnesses to address this.

In addition, Walter Dutton, the Business Manager of IBEW was present at both of these depositions.

Moreover, the Application and Operating Agreement are public documents available for review and copying at the TRA. They have been on file at the TRA since November 24, 1999. MLGW's counsel has served copies of all documents and pleadings it filed since IBEW was made a party on IBEW's counsel. If IBEW did not have a copy of the Application and Operating Agreement, MLGW would have provided one upon request.

Q. MR. HALL ALSO COMMENTS THAT MLGW DID NOT SEEK ANY INPUT FROM THE UNION REGARDING THE JOINT VENTURE. PLEASE COMMENT ON THIS STATEMENT.

A. MLGW treated the decision to enter the joint venture as a business decision, which was properly made by MLGW senior management, and ultimately approved by the MLGW Board of Commissioners. There is no requirement that MLGW seek input from the union prior to making such business decisions, but MLGW does attempt to keep the union informed of overall strategic direction. Mr. Hall stated that MLGW has told the union that they are "partners." MLGW has made such a reference to the union but did not use the term "partners" to connote a business arrangement, but rather as team members working together in furtherance of the goals of the organization. The business decision to enter the joint venture is not an issue covered by the Memorandum of Understanding ("MOU") or one that necessitated the input from the union. However, I discuss further below, in keeping with our desire to encourage positive relations with IBEW, we hold quarterly meetings with their Executive Board. At these meetings we informed IBEW of the status of the telecom project well in advance of the formation of Memphis Networx, LLC.

Q. MR. HALL STATED THAT NO MEETINGS WERE HELD BETWEEN REPRESENTATIVES OF MLGW AND IBEW CONCERNING THE FORMATION OF MEMPHIS NETWORX. IS THIS ACCURATE?

A. No. Representatives of MLGW and IBEW met at the regularly scheduled quarterly meetings between the two in January, June, and September, 1999. At these meetings, discussions were held concerning the status of the telecommunications project. I provided the update on the project at the June 2, 1999 meeting, including the status of the joint venture and the draft business plan. At that meeting, Brent Hall stated that the union wanted employees to have a shot at the construction work for the joint venture. We also discussed the status of the joint venture, and the draft business plan. Mr. Hall was present at all of these quarterly meetings. Mr. Stinson will be addressing the discussions at the January and September meetings in his Pre-filed Rebuttal Testimony. Attached to this testimony are copies of the agendas for these meetings which show that the telecom project was to be discussed.

I also participated in informal discussions of the joint venture during the "Management By Walking Around" meetings (MBWA) which were held for many department during 1999 and 2000. In addition, I briefed various union stewards and members of management about the status of the project at several "best practices" meetings during 1999 and into 2000.

Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN THE JOBS COVERED UNDER THE MOU AND THE MEMPHIS NETWORX PROJECT.

A. First, it is my understanding that the Pre-Hearing Officer, in his Order dated April 25, 2000, found that certain issues, including the impact of the MOU on the union, were beyond the scope of this proceeding. The issues raised by Mr. Hall concerning whether or not jobs under the joint venture would be covered under the MOU therefore are also outside the scope of the proceeding and should not be considered by the TRA. Despite this objection, I will nonetheless address the issues raised in Mr. Hall's testimony.

Mr. Hall stated that new jobs would be created by the venture that were covered by the MOU. This is not the case. The MOU only covers jobs created within MLGW, not any jobs created by a new separate entity.

Mr. Hall also stated that the joint venture was a means to circumvent the requirements of the MOU. There was never any intention on the part of MLGW to circumvent the MOU by setting up a separate, private entity. MLGW agreed to enter the joint venture for valid business reasons, and under the authorization of the General Assembly, as has been discussed extensively in the testimony of John McCullough and Ward Huddleston. It is also speculative to discuss what, if any, new jobs would have been created if MLGW had entered the telecommunications business solely through its Telecommunications Division. Thus, any testimony by Mr. Hall on these potential jobs is too speculative in nature and does not deserve further comment.

- Q. MR. HALL RAISED CONCERNS ABOUT THE ABILITY OF MLGW TO BID AND PERFORM CERTAIN WORK FOR MEMPHIS NETWORX. PLEASE COMMENT ON THIS TESTIMONY.
- A. The union had shown interest in bidding on construction work for Memphis Networx. As I stated earlier, at the June 2, 1999 meeting with the union, Mr. Hall expressed an interest in having union workers have a shot at construction work for the joint venture. MLGW informed the union that it would bid on such jobs, as appropriate. Thus, I was surprised that Mr. Hall testified that any additional work performed by MLGW for Memphis Networx may take away employees from other essential services provided by MLGW.

In May 2000, MLGW did make a good faith bid on construction work for Memphis Networx. Memphis Networx, however, did not choose MLGW, but rather chose another bidder to perform the work. It is my understanding that MLGW did not submit the lowest bid. Mr. Huddleston will be commenting further on this bid process.

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- Q. MR. HALL ALSO TESTIFIED CONCERNING THE PRECEDENT SET BY THIS JOINT VENTURE. PLEASE COMMENT ON HIS CONCERNS.
- A. The Tennessee General Assembly set state policy, through the enactment of Public Chapter 481, which specifically authorized municipal electric utilities to enter into a joint venture with a private entity for the provision of telecommunications services. Many of the issues raised by Mr. Hall address his concern with MLGW entering the joint venture. This form of entity is authorized by law and as stated earlier the decision to use this form of entity for the telecom venture is a business decision of MLGW.

Moreover, Mr. Hall raises issues that the Pre-Hearing Officer has already ruled as being beyond the scope of this proceeding. In the April 25, 2000 Pre-Hearing Officer's Order, Mr. Collier found that certain issues were outside the scope of the proceeding. These "off limits" issues included: 1) "questions relating to the intentions of MLGW with respect to the creation of similar joint ventures in the future which would take over its gas, water and/or electric operations"; and 2) "questions relating to why MLGW is going into business with an out-of-state company that is non-union and pays low wages to its employees, and the impact of such on the Memorandum of Understanding, the IBEW, and its members." Even after allowing IBEW to testify in the subsequent Pre-Hearing Officer Order of May 22, 2000, the Pre-Hearing Officer affirmed that the scope of cross examination continues to be limited to exclude these issues.

- Q. MR. HALL ALSO STATES THAT REAL-TIME METER READING MAY RESULT IN THE LOSS OF JOBS. PLEASE RESPOND TO THIS CONCERN.
- A. Any decision related to automated meter reading is totally independent of any relationship with Memphis Networx. MLGW has studied automated reading for over five years. MLGW will continue to study automated reading for several more years. If MLGW decides that automated meter reading is a benefit to its ratepayers, then it will decide to make such a move. Implementing such a change will likely take several years to complete. If MLGW implements this policy and if any jobs are to be eliminated, MLGW anticipates that it will phase out positions through attrition as opposed to laying off employees. I should also point out that it is likely that new jobs will be created if automated meter reading is implemented, i.e., employees will be needed to maintain and repair the devices.

6

- Q. ON THE LAST PAGE OF HIS TESTIMONY, MR. HALL STATES THAT HE IS CONCERNED THAT MLGW IS ENTERING INTO A JOINT VENTURE WITH AN OUT-OF-STATE, NON-UNION COMPANY THAT HAS LITTLE EXPERIENCE IN THE TELECOMMUNICATIONS BUSINESS. PLEASE RESPOND.
- A. The issue before the TRA is the managerial and technical qualifications of Memphis Networx, the Applicant in this proceeding. Like any start-up company, Memphis Networx has hired new personnel and retained consultants in order to obtain the proper expertise in its field. Again, this concern is one of the two issues that Mr. Collier has found to be outside the scope of these proceedings, i.e. why MLGW has entered a joint venture with an out-of-state company.

I will defer to the testimony of Ward Huddleston on the issue of the qualifications of Memphis Networx.

- Q. ON P. 8 OF HIS TESTIMONY, MR. HALL TESTIFIES THAT TAXPAYER MONEY IS POTENTIALLY AT RISK DUE TO MLGW'S ENTRY INTO THE JOINT VENTURE WITH A&L. DO YOU AGREE?
- A. No. Taxpayer money will not be at risk in the joint venture. The only funds at risk are electric system funds that MLGW's Electric Division has made available to its Telecommunications Division through a \$20 million interdivision loan, as authorized by Tennessee Code Annotated Section 7-52-402. This commitment represents a fraction of the total operating and capital budget for all divisions, which for 2000 was approximately \$377 million. excluding the moneys set aside for purchase power and purchase gas (inclusion of these other moneys brings the total budget to over \$1 billion). MLGW's total commitment to the project is limited as set forth in the Operating Agreement and the Umbrella Agreement, as Mr. McCullough discusses in his testimony. MLGW's initial contribution is limited under the Umbrella Agreement to approximately \$5.3 million, although the Operating Agreement envisions total capital contributions by both members of \$30 million. The revenues of the Electric Division are derived from services rendered by the Electric Division. These are not taxpayer funds.
- Q. WOULD MR. HALL'S SUGGESTION THAT MLGW ENTER THE TELECOM BUSINESS BY ITSELF PUT A GREATER FINANCIAL RISK ON MLGW THAN THE CURRENT JOINT VENTURE?
- A. Yes. Mr. Hall earlier testified that it would be better if MLGW enters the telecommunications field solely on its own through its Telecommunications Division. Then at the end of his testimony, Mr. Hall notes that sharing the

7

risk with another entity puts ratepayer and potentially taxpayer money at risk. In developing its telecommunications strategy, MLGW executives considered the possibility of providing these services through a separate division of MLGW. We decided against that option for several business reasons, one of which was that the formation of a joint venture would lessen the financial risk to MLGW. By entering the project through the joint venture, MLGW has only committed to approximately fifty three percent (53%) of the initial capital contributions for the project, versus one hundred percent (100%) of the initial capital contributions that would have been necessary if MLGW proceeded on its own.

Through the provisions of the Operating Agreement, we were also able to further mitigate MLGW's capital risk by shifting the risk of losses to A&L. Under Article 10 of the Operating Agreement, losses of Memphis Networx are allocated fifty percent (50%) to MLGW and fifty percent (50%) to A&L up to the amount of the total interim capital contributions (i.e., those made prior to regulatory approval). However, after these capital account amounts have been depleted losses are then allocated one hundred percent (100%) to A&L up to the total amount of its additional capital contributions. Losses are allocated to MLGW only after A&L's entire capital account has been exhausted. This clearly mitigates MLGW's financial risk. This additional protection is valuable to MLGW and obviously would not be an option for MLGW if this project was an internal one.

From a business risk standpoint, the MLGW management team determined that the joint venture option was preferable to a Telecommunications Division project. If Mr. Hall is concerned about MLGW limiting its risk, then the joint venture is the better vehicle for accomplishing that goal.

- Q. MR. HICKERSON RAISED CONCERNS ABOUT MLGW BIDDING ON MEMPHIS NETWORX CONSTRUCTION JOBS. WOULD YOU COMMENT ON THIS?
- A. Yes. As stated earlier, the IBEW wanted us to bid on construction jobs for Memphis Networx and we made a good faith, competitive bid on their recent request for bids and were not the low bidder. I think this is further evidence that MLGW does not intend to underestimate its costs in order to obtain work from Memphis Networx.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

VERIFICATION

I, William Larry Thompson, declare under penalty of perjury that I am authorized by Memphis, Light, Gas & Water Division to testify on its behalf, that I have caused the foregoing written testimony to be prepared on my behalf, that I have read the foregoing testimony and that the statements contained therein are true and correct to the best of my knowledge, information and belief.

William Larry Thompson⁰

Senior Vice President and Chief Operating

Officer

Memphis, Light, Gas & Water Division

STATE OF TENNESSEE)
)
COUNTY OF SHELBY)

Sworn to and subscribed before me this 5th

_, 2000

Notary Public

My Commission Expires:

File-IBew 18

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Jan. 22 9:00

Union Hall

(lunch afterunids)

Mayor's Buyout	1998	Herman Morris
United Way	1998	Curtis Dillihunt
IBEW/MLGW Food Drive	1998	Brent Hall
Collierville Substation	1998	Wade Larry Thompson
Thirty-Year Retirement Plan	1998	Curtis Dillihunt
Staffing of Insurance Area	, 1998/1999	Curtis Dillihunt
Bond Rating	1998	Herman Morris
TVA Contract	1998/1999	Hemon Larry Thompson
Telecommunications	1998/1999	Wade Larry Thompson-
GY2K V	1998/1999	Larry Thompson Shir
ESCO	1998/1999	Curtis Dillihunt
Collierville Office	1998/1999	Wade Larry Thompson
Budget & Rates - Benchmark	ing 1999	Herman Morris
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AGENDA

June 2, 1999

General Update Herman Morris	S
Telecommunications Larry Thompson	on
Sick Leave Committee	1
Insurance Brenda Carter	
ESCO Becky Garland	•

AGENDA

September 15, 1999

General Update Herman Morris
Telecommunications Wade Stinson
Safety Update
ESCO Becky Garland
Lineman - 474 Lee Smart Brent Hall

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